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C O N F I D E N T I A L SECTION 01 OF 05 TEGUCIGALPA 002746

SIPDIS

STATE FOR S, D, P, WHA, EB, CA, INL, DRL, PM, AND WHA/CEN  
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E.O. 12958: DECL: 09/30/2012

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SUBJECT: SCENESETTER FOR SECRETARY POWELL'S VISIT TO  
HONDURAS OCTOBER 10-11

Classified By: CHARGE D'AFFAIRES, A.I., ROGER PIERCE; REASONS 1.5 (B) A  
ND (D).

[1](#)1. (C) Summary. Honduran President Ricardo Maduro, only in office since January, faces numerous challenges in one of the poorest and most corrupt countries in the Western Hemisphere.

His Administration has been stalled on its domestic agenda since June as it tries to reconcile its ambitious goals to its straitjacketed financial situation. Bilateral relations between the U.S. and Honduras are excellent; Honduras was the first country in Central America (and the second in Latin America) to sign an ICC Article 98 Agreement with the U.S. and its support for the international counterterrorism effort is steadfast. The United States and Honduras have maintained a longstanding close relationship framed by such events as the establishment of the banana plantations in the late 1800s, the Contra wars of the 1980s, and reconstruction efforts in the wake of the October 1998 fury of Hurricane Mitch. End Summary.

#### Key Issues in Bilateral Relationship

[1](#)2. (SBU) The central themes in our bilateral diplomatic efforts in Honduras are combating international crime by strengthening governance and attacking corruption, assisting American citizens, fostering economic development, promoting regional stability, promoting trade and investment, and combating terrorism. However, the underlying difficulty to realizing USG objectives is improving the administration of justice and rule of law. President Ricardo Maduro,s government is fully engaged on all of these issues, supports judicial and political reform, and is seeking to transform Honduras so that law and order can be restored and economic growth ignited. He faces formidable challenges from entrenched economic and political interests in moving his agenda forward.

#### Status of the Maduro Government

[1](#)3. (SBU) President Maduro is facing increasing criticism from the political opposition over his government,s policies and continued dissatisfaction from his own party,s Members of Congress because of his Administration,s technocratic style.

The Honduran Congress is a focal point of political opposition to his policies. It is a corrupt institution riddled with avaricious politicians, and Maduro's National Party does not control a majority of the unicameral body. The ongoing problems within his own party are serious and threaten his broader political agenda, which will require legislation to advance. Continuing political negotiations will be needed to manage this situation. Maduro,s personal life is also intruding into the political sphere. His imminent wedding to a Spaniard has been criticized by many Hondurans who view the President as distracted by his personal life.

[1](#)4. (SBU) Your meeting with President Maduro is well-timed to give his Presidency a needed lift. The President,s standing has remained stalled at a low point since June. Faced with slow progress in his efforts to promote regional economic integration, Maduro,s team is pinning its hopes that a U.S.-Central American Free Trade Agreement (CAFTA) can serve as a catalyst to regional economic cooperation. Maduro is also beginning to hear wider disillusionment among the Honduran public as violent crime levels are increasing once again despite his successful initial "zero tolerance" law and order campaign. Notwithstanding his crackdown on street crime, actual ongoing criminal investigations, in particular homicides, remain stalled.

#### Counterterrorism Cooperation

[1](#)5. (SBU) Maduro is a good and reliable friend of the U.S. on counterterrorism. His government hosted a major U.S. military counterterrorism exercise in March and has quickly responded with freeze orders to all U.S. requests regarding suspect terrorist bank accounts. No terrorist assets have

been found in Honduran financial institutions, to date. The GOH still needs to take the following concrete steps: designate a national coordinator for counterterrorism, file its national report in accordance with United Nations Security Council (UNSC) Resolution 1373, and most of all, sign and/or ratify the seven outstanding international conventions/protocols and two OAS conventions (1971 and 2002) against terrorism.

#### Iraq -----

16. (C) While the GOH is in general supportive of key USG foreign policy goals, the Ministry of Foreign Relations appears hesitant to be out front supporting the USG position on Iraq. MFA officials have privately voiced concern that they believe that the USG needs to work harder on gaining multilateral support at the United Nations. Without UNSC or Rio Group consensus the GOH is not yet willing to make a public statement backing U.S. policy on Iraq. However the U.S. should be able to count on Honduras' support when a final decision is taken.

#### Anti-corruption -----

17. (SBU) The new U.S. policy against corruption struck a nerve in Honduras, especially any mention of our new visa revocation authorities. Politicians in Congress and certain business elements feel the U.S. is attacking them. Maduro is committed to addressing corruption, even if it will cost him political support within his party. The Supreme Court President is also on board. Given the scope of the problem, any public discussion about the country's pervasive corruption is a positive development.

#### Supreme Court and Judicial Reform -----

18. (SBU) The Supreme Court is developing into an independent branch of power, unlike all of its predecessor courts since democracy was restored in 1982. It is pro-reform in orientation and fighting for its prerogatives. In some respects, the development of the court in Honduras, restored democracy is approaching its "Marbury v. Madison" moment. The emerging issue is whether it can become a fully independent and co-equal branch of political power, consistent with the separation of powers provision in the Honduran Constitution. The established political order is fighting that prospect with all its might. In fact, the Congress recently seized the political opportunity to introduce legislation that would give itself the power to interpret the constitutionality of the laws it passes.

#### Public Security/Human Rights -----

19. (SBU) Upon taking office on January 27 President Maduro's first act was to fulfill his main campaign promise - a zero tolerance campaign against the country's out-of-control crime situation. He deployed more than 5,000 soldiers to the streets to support the police. The public responded enthusiastically. However, despite the initial success of establishing a visible police presence, violent crime, particularly kidnappings, has only fallen marginally. Public support is fading and the campaign needs some visible victories to restore confidence in the government's program.

We are helping the Maduro government establish an anti-kidnapping unit, increase intake/training of police recruits, create a model tourist police force, boost its counternarcotics efforts, and expand the frontier police. The country's geographic position makes it an obvious strategic transit point for narcotics trafficking, alien smuggling operations and other organized crime activities.

10. (SBU) Extradjudicial killings, especially of children/young adults between 1998-2001, have been a source of serious concern and only recently has the GOH begun to take steps to investigate the hundreds of unsolved cases. There has been some discussion of the establishment of a Truth Commission to look into unresolved alleged human rights abuses from the 1980s. There are serious problems with child labor in several industries, particularly melon, coffee, and shrimp (but not the maquila) sectors, and trafficking in persons of women/children for prostitution in the U.S. and children for commercial sexual exploitation in Central America. USAID and Peace Corps have both been involved in HIV/AIDS prevention.

#### Consular Issues -----

11. (SBU) Some 500,000 Hondurans, both legal and illegal, live in the U.S., a fact that places immigration issues high on the bilateral agenda. There is deep appreciation for the Administration's extension of Temporary Protected Status

(TPS) in the U.S. and interest in possible congressional action on the pending Nicaraguan Adjustment and Central American Relief Act (NACARA), which would give immigration parity for Hondurans. With fourteen thousand American citizens residing in Honduras and many thousands visiting Honduras annually for tourism and business American Citizen Services are a key part of the Embassy's work. There is little progress in any of the now more than 30 American citizen murder cases. In the last year the GOH has increased cooperation with the Embassy on these cases, including establishing two prosecutors. However, little progress has been made on extradition cases involving American Citizens wanted for felonies in the U.S.

#### Border Relations

12. (SBU) Honduras has border disputes with its three Central American land neighbors and its seven maritime neighbors. Maduro is personally engaged with his Presidential counterparts to address these issues. Its land and maritime disputes with El Salvador and Nicaragua are the most heated. The Gulf of Fonseca on the Pacific coast is a particularly difficult point. A 1992 International Court of Justice (ICJ) ruling laid out shared areas of control in the Gulf of Fonseca and established the land border between Honduras and El Salvador, although El Salvador has been slow to implement the ruling. In September of this year El Salvador raised issues related to the 1992 ruling to the ICJ for clarification.

13. (SBU) On the Caribbean coast, Honduras and Nicaragua have a long-standing maritime border dispute over the 15th parallel. Honduras provoked Nicaraguan retaliation when it signed a maritime treaty with Colombia recognizing the 15th parallel as its maritime border in 1999. Nicaragua filed an ICJ case over the maritime border and more importantly in 1999 slapped a punitive 35 per cent tariff on Honduran goods that remains in place despite a Central American Court of Justice ruling that it is illegal. With former Nicaraguan President Arnaldo Aleman deposed as President of the National Assembly, GOH officials have expressed renewed optimism that Nicaraguan President Enrique Bolanos will make good on private assurances to lift the tariff and thereby take an important step forward toward regional economic integration. You may wish to compliment Maduro on the GOH's restraint and note that the regional integration benefits of a CAFTA with the U.S. (as well as other integration efforts) will be undermined by a trade war.

#### Troubled Economy Endangers IMF Program and HIPC Debt Relief

14. (SBU) President Maduro may ask you for assistance in convincing Paris Club creditors to be patient, IMF officials to be lenient, and donors to agree to changes in the Highly Indebted Poor Countries (HIPC) rules on accounting for poverty reduction programs. President Maduro inherited a stagnating economy and seriously deteriorated government finances from the previous government. The GOH missed all key International Monetary Fund (IMF) targets in 2001. Even after the Maduro economic team won passage of austerity and tax measures in May of this year, the government's budget deficit is still expected to be a high 5.9 percent of GDP. The IMF is skeptical that the GOH will undertake the meaningful and long overdue reforms needed to work out a new three-year program. An IMF team arrives in October.

15. (SBU) International Financial Institution (IFI) and bilateral donor disbursements will be held up until the new IMF program is in place. There could also be pressure on GOH Paris Club debt service payments (USD 100 million per year). In the meantime, the completion point for HIPC debt reduction (worth USD 900 million) continues to slip back further. Ultimately, this fiscal situation could impact Honduras, eligibility for Millennium Fund grants.

16. (SBU) The Honduran economy is growing slowly (estimated real GDP growth of 1.8 percent this year). Low world coffee prices continue to hurt the economy in rural areas. Inflation continues to decrease slowly, estimated at 8-9 percent in 2002. The currency is depreciating at a rate of about five percent per year. The economy is dominated by agriculture - particularly the production of coffee, bananas and cultivated shrimp - although the in-bond apparel assembly industry has grown dramatically over the past decade and remittances, from Hondurans living overseas, continues to grow rapidly (up 38 percent in the first six months of this year) and have become the most important source of foreign exchange. The U.S. is Honduras' largest trading partner; roughly 150 U.S. companies do business here. While many social indicators are improving, two-thirds of all Hondurans live in poverty and average educational levels are very low.

17. (SBU) Maduro will probably express gratitude for a Treasury Department technical assistance project on tax

collection and enforcement, partially supported by USAID. While modest in scope, the GOH is excited about its potential to strengthen its tax service and help deter tax evasion.

#### U.S.-Central America Free Trade Agreement (CAFTA) Critical

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118. (SBU) Maduro has personally identified himself with a CAFTA as his government's principal trade objective. The Minister of Industry and Trade is reorganizing the Ministry (historically fairly weak) and adding staff in a belated effort to get ready for the negotiations. The Maduro administration has also been more cooperative with the U.S. in the World Trade Organization (WTO) in Geneva. Honduras (along with other Central American countries) has been supportive in the FTAA ministerials but to date has not taken an active role in the negotiating groups.

119. (SBU) Latent protectionism exists in the private sector, but the general attitude toward a free trade agreement in Honduras is positive. The textile and apparel industry in particular believes an FTA is the only way that the Honduran apparel sector can survive the elimination of quotas in 2005 and compete with Asian manufacturers.

#### U.S. Investment Faces Problems

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120. (SBU) The Maduro government understands that Honduras needs foreign (and domestic) investment to spur economic growth but has placed emphasis on the more immediate problems of political and judicial reforms, the fiscal deficit, and needed improvements in security, education and health. Maduro will tout a new law on simplification of administrative procedures and formation of a national competitiveness council, headed by Vice President Vicente Williams, to enhance the investment climate at all levels of society. The government has identified tourism, agrobusiness, forestry, and mining as important sectors that could create much-needed jobs.

121. (SBU) Much more needs to be done to declare Honduras "open for business." Maduro needs to find a way to get his cabinet (and the prickly legislative and executive branches) to make meaningful changes that will resolve the key problems: poor and expensive infrastructure; weak legal system; personal security, education and health conditions; land tenure problems; and opposition to large foreign investments by well-connected vested interests.

122. (SBU) The Honduran government has stalled in its past efforts to liberalize and privatize the electricity and telecommunications markets. We are closely following the pending tender by the National Electric Energy Company (ENEE) to purchase 210 mega-watts of electricity starting 2004. If U.S. company AES is successful in this bid and its efforts to build a combined cycle plant in Puerto Cortes, we expect a big spur to regional integration and investment in light manufacturing and assembly in Honduras. The GOH's telecom regulatory agency is also bidding out a second cellular phone license this year; two U.S. companies have applied during the pre-qualification stage. The GOH has requested USG policy support for liberalization of the telecom (through the Trade and Development Agency) and power (through USAID) sectors. However, in order to make these long overdue structural reforms a reality, the Maduro government must follow through on its commitments.

123. (SBU) Land tenure problems (combined with a weak judicial system) are endemic in Honduras, and undermine efforts to develop the tourism, agriculture and forestry sectors. They also deter new investments in a variety of other sectors. The Embassy has files on 112 property dispute cases (generally squatter/land reform cases and title disputes), of which 32 are active. There are an additional 68 commercial disputes, of which 14 are currently active. The GOH plans to introduce a law allowing some of the land cases to be submitted to arbitration and is working on an improved property registry system.

124. (SBU) These will be important steps, but much more is needed. The GOH and Supreme Court need to ensure that the judicial system provides effective responses to commercial and investment disputes and violations of property rights.

#### Money Laundering and Bank Failures

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125. (SBU) Strengthened money laundering legislation, with an antiterrorist financing clause, was the first law to be adopted by the new Congress in late February of this year. The fragility of the financial system remains a key concern. The GOH took over the two most troubled banks in May 2002, arranged for the absorption of a third undercapitalized bank and is actively promoting mergers among the remaining 20 private banks. Although the Maduro government has managed

the financial sector issue well, massive challenges remain.  
A World Bank/IMF review of the financial sector is underway.

#### Embassy Tegucigalpa

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126. (SBU) Embassy Tegucigalpa is a medium-sized post, employing 140 U.S. citizens and 300 Hondurans among 20 USG agencies. Our Peace Corps program, with more than 220 volunteers, is one of the world's largest, and the USAID mission had a FY02 budget of USD 34.5 million. The Mission maintains a Consular Agent in Honduras' second city and industrial center, San Pedro Sula. Five-hundred and fifty U.S. service men and women are stationed at Honduras' Soto Cano Airbase under the auspices of U.S. Southern Command as Joint Task Force Bravo. In 1954, the USG and GOH signed a Bilateral Military Assistance Agreement that set forth their intention to work closely together to foster peace and security in the Western Hemisphere. The ICC Article 98 Agreement with Honduras is therefore a particularly important accomplishment, and will enable our military forces to continue to work together in such areas as disaster recovery, joint training exercises, and counternarcotics missions.  
PIERCE